CALCULUS
CHARTERED ACCOUNTANTS (SA) & AUDITORS

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Senbiz (Pty) Ltd

Report on the Valuation of Senbiz (Pty) Limited

Terms of Reference

At your request we have performed a valuation of the shares in Senbiz (Pty) Limited as at 28 February 2007.

The scope of our work did not constitute an audit in terms of generally accepted auditing standards and accordingly we do not express an opinion on any of the financial data or other information on which the valuation was based. The information used in the valuation was based exclusively on the following sources:

1. The audited annual financial statements for the periods 28 February 2007.
2. The company's memorandum and articles of association.
3. Discussion with the director of the company.

We performed an analysis of the company's past results and reviewed the income and expenditure of the company to determine the adjustments necessary to arrive at maintainable earnings. The company used 79 cents as an initial investment to start the business.

Basis of Valuation

The valuation is based on the projected sustainable free cash flows taking into account views of future performance as at 28 February 2007. The discount rate used to present value these cash flows takes both systematic and unsystematic risks into account. The systematic cash flow model accounts for secondary tax on companies each year based on the projected distribution to shareholders.

Tax Rates Used in the Valuation

Tax rates for companies (29%), secondary tax rates for companies (12,5%) and the marginal normal tax rate of individuals (40% - 2007).

Determination of the Equity of the Company

The financial statements at 28 February 2007 contains an analysis of the assets and liabilities of the company.

Determination of Maintainable Earnings Before STC

The income statement at 28 February 2007 will be used to determine the maintainable earnings.

Projected Marginal Return on Opening Equity (or Growth in Projected Earnings)

The growth in projected earnings will be determined based on an analysis of the past and evidence and views of expectations in the future. It is usual to project the return (or growth) at a lower rate than has been achieved in the past as the past is fact and the future untested.

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Projected Maintainable Dividend Pay Out Ratio

The dividend policy will be taken into account. The ratio of dividends that could be declared based on the company's working capital and fixed asset replacement needs will be taken into account because no dividends were paid in the past.

Survival Period

When using a projected cash flow model, one needs a terminal date. Factors that would determine this date are:

1. The type of product /investments.
2. The age of the major shareholder.
3. The period the company has already been in business.

For a small private company the range could be anywhere between five and thirty years. We believe that the survival period will be 10 years.

Book Value Realised on Termination

The expected portion of the assets realised on termination date after paying creditors and loans that will be available to the shareholders at the termination date. The quality of the assets and the ratio of liabilities to assets will be taken into account in this determination. Note that the model takes the STC into account.

Fair Rate of Return

Pre-Tax Risk Free Rate

The yield to maturity of long-term government bonds at 28 February 2007 was 7.4% p.a. according to a reputable share trading website.

Systematic Risk Premium

We believe it is generally accepted that the systematic risk premium is 6% in RSA.

Beta to Modify the Systematic Risk Premium

The beta for a company that is exposed to average systematic risks is 1. We will take the specific risks into account for this company and what the company is exposed to and not exposed to and conclude on a suitable beta for the valuation. The debt equity ratio is on the low side.

1) The company has little borrowings and none of which are secured loans from financial institutions. There is, therefore, little exposure to interest rate risk.
2) The balance sheet is strong.
3) The company is not overly exposed to systematic risk
4) We believe that a beta of 0.9 will be applicable taking the risks into account.

Unsystematic Risk Premium

In my view the unsystematic risk premium for the majority holding is 12% p.a. This view is based on the following evidence:

1) The company is reasonably small.
2) The company is reasonably new.
3) The valuation is for 100% shareholding of the company.
4) There are low barriers to entry in this type of business.
5) The marketability of the investment is very low.

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Resultant Fair Rate of Return
7,4% x (1 – 40%) + 0,9 x 6,0% + 12% = 21,8%

Valuation

Based on the above views the valuation of 100% of the shares is R10,067,179 using the systematic cash flow valuation model. Refer to Senbiz excel workings. (Rounded **R10,067,179**.)

Please do not hesitate to contact us should you have any enquiries.

Yours truly,

Calculus Chartered Accountants(SA) and Auditors
Heinrich Möller

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